

Colleagues,

This is to follow-up on my December 22, 2016, message board post, "[Possible Solution to Downtown Puzzle](#)" that addressed, at a high level, interconnected efforts related to downtown homelessness, restoration of Waller Creek and the creation and maintenance of the Waller Creek chain of parks, expansion of the convention center, and other community benefits like further development of the Mexican American Cultural Center, venue and other support for commercial music and creative Industries, and support for the Sixth Street Historic District and the Red River Cultural District, as well as additional historic preservation opportunities. The December 22<sup>nd</sup> posting identified an early view of how these various issues might fit together.

**Importantly, this post also expands on the work being done by many to suggest how and where we can, and should, address downtown homelessness and the ARCH as part of the initiatives and related activity now under consideration for this part of town.**

The Downtown Puzzle options and pathways forward are now coming into greater focus due to the further work of the Council, including but not limited to the town hall meetings sponsored by Council Members Renteria, Houston and Mayor Pro Tem Tovo, city staff's work including the recent [Update to Financing for Downtown Projects](#), the [Visitor Impact Task Force Report](#), and other community involvement. I pull from these efforts liberally and at least some of their work is re-stated below.

The various pieces of the Downtown Puzzle fit together and, in some important ways, are dependent upon one another. One example is the dire need to address the public safety and social challenges presented at the Austin Resource Center for the Homeless (ARCH). We need to modify its function to allow the existing facility (without expansion and in that location) to better serve the homeless community. While the challenge is not new, we've not been able to identify a dedicated funding stream that would make finding a solution viable and provide the resources for the good work of the ARCH to be more successful. One part of a possible answer would be a Tourism Public Improvement District (TPID) that could annually provide \$4 to \$8 Million to address homelessness (through a combination of direct and matching funding). This would take the form of a 1% to 2% increase in the hotel tax paid by tourists and this tax would be separate and in addition to the hotel venue taxes used for a convention center expansion. Such an increase can only be levied under state law with the hotel industry's support and industries typically do not want taxes raised on their products. However, indications are that the Austin hotel industry would participate in providing such a funding stream to deal with the community priority of downtown homelessness if it were part of a package that also included the expansion of the convention center.

Most of the hard decisions we need to make as a community require trade-offs and balancing interests and priorities, and rarely present options that are clearly only right or only wrong. The possible expansion of the convention center is one such issue. On balance, it seems to me that the possibility of a convention center expansion may well present the best opportunity to align our community and build the critical mass of support, political will, and funding streams necessary to deliver community goals too long delayed. These goals include not only addressing homelessness and the challenge at the ARCH, but also funding the final phases of the Mexican American Cultural Center (MACC), supporting the Sixth Street Historic and the Red River Cultural Districts, supporting the Waller Creek restoration and chain of parks, preserving important culturally historic places like the Palm School, funding to support the growth and sustainability of our commercial music industry, providing for improvements to visitor elements at Zilker and other parks, and other community benefits. This choice does not prejudice other community capital goals, such as parks and

open space, infrastructure, affordable housing, etc., because these generally must look to other funding sources such as bonds. State law restricts hotel tax revenue to fund only “tourist” related matters such as venues (not located in parks), historic preservation, and cultural arts.

I have had several reservations about an expansion of the convention center, even though it would be funded by visitors to Austin rather than Austin taxpayers. These reservations would largely be addressed if:

- the first floor or two of any expansion was “activated” with uses such as restaurants and retail that could be enjoyed by Austinites in addition to visitors;
- an expansion were designed in a way that preserved the critical elements of our downtown street grid;
- the city’s property and sales tax base would be enhanced with the active uses on the first floor or two and with office or residential uses made of the airspace above the expansion (which should also contribute to affordable and mixed-income housing opportunities downtown);
- an expansion package also included funding for the other community needs identified above.

It now appears that these concerns can be met. If so, we have a unique opportunity and should act.

[As an aside, I continue to believe that the City should be working with Travis County on projects where our interests and responsibilities align. We should be working together on projects that lead to economic development, access and equity in the Eastern Crescent, for example. Most such projects are not susceptible of funding through the limited Chapter 334 Venue hotel occupancy tax (HOT) available to both the City and the County because that can only be spent on voter approved tourist venues. As I have discussed with both County Judge Eckhardt and Commissioner Travillion, we should consider otherwise and jointly financing such key projects. I look forward to the City and the County working together on such matters. In any event, as set out below, this Downtown Puzzle post does not recommend allocating all of the available Chapter 334 Venue HOT beyond the next several years.]

## **PUZZLE PIECES**

Most of the puzzle pieces are projects and initiatives that have long been in the works or long desired by the community. These interrelated ideas could be advanced with funds that primarily come from tourists, not Austin taxpayers, because they are eligible for the tourism dollars that are otherwise limited on how they can be spent. We will deal meaningfully with homelessness and at the ARCH. A convention center expansion done correctly will not only keep our downtown streets activated and accessible but will also retain the associated property on our tax rolls. We will help grow our music and creative industries. We will increase our historic preservation activities. We will fund a much-needed expansion of the Mexican American Cultural Center reflecting increased investment in a growing cultural component of our city. We will utilize the tourism industry to improve the quality of life for Austin residents, including our homeless population. We will preserve our existing support for our cultural arts. We will support the creation of an extraordinary chain of parks with venues, park space, and amenities around a restored Waller Creek to be enjoyed by all of Austin. We will gain additional property tax revenues for our general fund from capital investments funded by tourism dollars and the private sector.

### **Homelessness.**

First and foremost, I believe we need to use this moment and activity to better empower the ARCH and address the homelessness concentrated in our downtown. Everyday about 650 people – 180 on the streets

and 470 in – are homeless and staying in the downtown area. There are growing public safety concerns as predators target our homeless downtown. The K2 epidemic claims lives and injures many. Austin residents and visitors to downtown have been aggressively approached by the homeless or those that exploit the homeless and there is a growing hesitancy to visit or return to downtown. People experiencing homelessness require assistance to get back into housing and reconnect to positive communities. Yet, the costs of homelessness are greater than the cost of working toward net effective zero homelessness. I look forward to continuing work with Mayor Pro Tem Tovo, Council Members Kitchen, Casar, Houston, Troxclair and community stakeholders such as ECHO, the Salvation Army, Caritas, Front Steps and others in the work they have been doing.

To enable further progress on downtown homelessness, and as set out below, there is an opportunity to obtain funding from both a downtown Tax Increment Finance (TIF) District (a one-time \$30 million for capital expenditures, such as for shelters and housing) and a Tourism Public Improvement District (TPID) (annually \$4 - \$8 million) to respond in new ways to downtown homelessness.

In February, Mayor Pro Tem Tovo and I built on past work and convened a diverse group of representatives from local organizations to address the crisis of homelessness primarily in the downtown area. This group is pulling together a plan and will be working with the Bloomberg Philanthropies to create a clear pathway to net effective zero homelessness, to find further efficiencies and effectiveness in the current system, and to build new strategies that increase our capacity to meet the challenge. The community needs to engage in this search for answers as well. In the meantime and to facilitate this work, we need to identify and dedicate revenues that can be made available to meet the challenge.

### **Hotel Taxes.**

As was presented by staff in early February and endorsed by the recent Task Force report, we should support Hotel Venue Tax “Option 2b,” which provides a flow of funds from an additional 2% added to our current Chapter 351 Venue HOT (Hotel Occupancy Tax) and maintains but accelerates the existing 2% Chapter 334 Venue HOT so that it will expire eight years early in 2021. This revenue would support total capital projects of \$609 million for eligible projects such as venues, historic preservation, arts and other initiatives that support tourism. Additionally, this revenue stream would provide additional annual income of just over \$6 million.

Further, and consistent with the Visitor’s Task Force Report, we should work with the hotel industry to create a TPID. This HOT vehicle, an additional HOT that is separate and independent from the Chapters 344 and 351 Venue HOT, would add 1% through 2021 and then 2% for the next five years and perhaps beyond. The hotel industry and the City would allocate a portion of the TPID funds to generate annual revenue ranging from \$4 to \$8 million in direct and matching funds to be dedicated to meeting the challenge of homelessness downtown, including at the ARCH. (Note: the TPID percentages do not count against the maximum 17% limitation on the combined Chapters 351 and 334 Venue HOT allowance.)

This scenario would have the current 15% HOT increase to 18% in years 1 to 5 (with the 3% increase being the new, 2% Chapter 351 HOT, plus a 1% TPID). In years 6-10 the HOT would drop to 17%, as the current 2% Chapter 334 HOT expires and the TPID increases to the allowed total of 2%. (Note: Beginning in 2022, this scenario leaves uncommitted 1% of the Venue HOT allowance and it would be available for the Chapter 344 Venue HOT, accessible by both the City and the County.)

### **Waller Creek Restoration and Chain of Parks.**

We should extend the time period for the existing Waller Creek Tax Increment Financing (TIF) district to raise \$110 million to partially fund the restoration of Waller Creek and the chain of parks. The balance of the capital costs would need to be matched by the Waller Creek conservancy and private donations. Further, we must establish a funding stream to cover the maintenance and operation costs for the new chain of parks at the outset, consistent with lessons learned from the High Line linear park in NYC. This should look to the adjacent and nearly adjacent properties that stand to benefit the most through their proximity to the park by establishing a vehicle such as a Public Improvement District (PID), an endowment, or some other funding vehicle.

### **Convention Center Expansion.**

Consistent with the Task Force recommendation, we should allocate up to \$559 million of the \$609 million Chapter 351 HOT funding associated with “Option 2b” for a convention center expansion that maintains the ground level or two as activated space, preserves critical elements of our downtown street grid, and preserves the air space above the expansion for office and residential space that will contribute property tax revenue (with provisions for affordable housing advancements).

### **Downtown Tax Increment Finance (TIF) District**

City staff indicates in the recent Downtown Puzzle financing update that a downtown TIF district could generate \$30 million in available capital that could be spent on housing the homeless by capturing the property tax increment arising from meeting the challenges presented by the ARCH and the downtown homeless.

### **Other Area Facility and Capital Investments.**

The balance of the Chapter 351 HOT capital raised, or \$50 million, should be allocated to eligible facility projects in the vicinity (such as the MACC final phases), historic preservation (such as the Palm School), visitor center improvements (such as at Zilker Park), and to support eligible districts (such as the Sixth Street Historic and Red River Cultural Districts).

### **Annual Eligible Expenses (e.g., Music and Preservation).**

The above described “Option 2b” also provides for new and additional annual revenues that could fund, consistent with the Visitor’s Impact Task Force report, operating expenses of \$3.2 million to support the commercial music/creative industry and a similar \$3.2 million for historic preservation projects that promote tourism. This scenario importantly preserves the current percentage funding for non-profit cultural arts in Austin.

I look forward to discussing these opportunities with my colleagues. On Monday morning at 10 AM (tomorrow), there will be a press conference with various stakeholders at City Hall to discuss the downtown puzzle. I invite my colleagues on the Council to join us as we move forward on this important work.

The funding for the Downtown Puzzle, as set out above, follows and is attached.

## DOWNTOWN PUZZLE: PROJECTS and FUNDING

<b><u>SOURCE OF CAPITAL FUNDS</u></b>		
TIF	\$110,000,000	Waller Creek TIF (temporal expansion)
Philanthropic	\$ 90,000,000	Waller Creek linear park supporters
Hotel Occupancy Tax (HOT)	\$609,000,000	Conv Cntr HOT, Option 2b presented to City Council
TIF	<u>\$ 30,000,000</u>	Downtown TIF and/or Waller Creek TIF (geographic expansion)
<b>TOTAL CAPITAL FUNDS RAISED</b>	<b>\$839,000,000</b>	

<b><u>SOURCE OF OPERATING FUNDS</u></b>		
Waller Creek Public Impv Dist	\$1,000,000	Focused on the enhanced properties proximate to linear park
Conv Cntr Option 2b Balance Funding – Music (HOT)	\$3,200,000	(percentage remains constant, but dollars growing in future years)
Conv Cntr Option 2b Balance Funding - Preservation (HOT)	\$3,200,000	(percentage remains constant, but dollars growing in future years)
Tourism Public Improvement District – 40% of TPID	<u>\$8,000,000</u>	TPID (requires joint city/hotel industry support), yrs 1-5 @ 4%; yrs 6-10 at 2%.
<b>TOTAL OPERATING FUNDS</b>	<b>\$15,400,000</b>	

<b><u>CAPITAL INVESTMENTS</u></b>		
Waller Creek Restoration and Chain of Parks	\$200,000,000	Funded with TIF and philanthropic gifts
Conv Cntr Expansion (HOT)	\$559,000,000	Option 2b Convention Center expansion
Area Capital Enhancements (e.g., MACC (final phases); Palm School; Historic Preservation; West 6 <sup>th</sup> Street Historic and Red River Cultural Districts)	\$50,000,000	Expansion project components
Homelessness (capital)	<u>\$30,000,000</u>	Permanent supportive and Shelter housing
<b>TOTAL CAPITAL INVESTMENTS</b>	<b>\$839,000,000</b>	
<b>OPERATING EXPENSES</b>		
Waller Creek Linear Park Operations	\$1,000,000	
Commercial Music and Creative Industries	\$3,200,000	
Heritage Preservation	\$3,200,000	
Homeless	<u>\$8,000,000</u>	“Right-size” the ARCH function to fit the facility to better serve the needs of the homeless and to meet the public safety and health challenges presently surrounding that facility and the downtown homelessness challenge generally. (Initially \$4 million, yrs 1-5; \$8 million yrs 6-10 w/possible extension.)
<b>TOTAL OPERATING EXPENSES</b>	<b>\$15,400,000</b>	